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MONETARY CONTRACTION AND THE PRESENT CRISIS.*

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Among the many causes of the present crisis there is a very important one which I have endeavored on several occasions to interpret, without, I fear, having been successful. I have reference to the monetary contraction, that is, to the diminution of the metallic instruments of exchange at a period when the continued increase of business in the world demanded an increase of them. This cause of the crisis continues unperceived, because, on the one hand, the great majority of the public do not know enough of political economy thoroughly to understand this difficult question, and, on the other, because economists, prejudiced by systematic views, refuse to see the facts as they are. These facts are, it seems to me, as follows: The coinage of silver is suspended everywhere in Europe. We are therefore, in fact, under the system of gold monometallism. The production of gold is insufficient for monetary wants, because the mints are almost compelled to close up. The instruments of exchanges not being fed by an annual coinage of about one milliard of francs a year, as they were formerly, are contracting; whence the fall of prices, the essential character and cause of the present crisis.

This cause of the crisis, it seems to me, is undeniable: First, because it had been brought out into bold relief, with all its consequences, before events came to confirm this forecast; second, because a crisis exactly similar to the one we are now undergoing was produced after 1819 by a similar cause; third, because the explanation to which I have referred is in harmony with those principles of political economy which are least contested.

I. The present crisis was foretold, in the most precise manner, by the most competent and the most various authorities. Let us first hear the bimetallists. Fourteen years ago Wolowski and Ernest Seyd foretold, in the following terms, the inevitable consequences of the demonetization of silver by a great state, although they did not then foresee a general proscription of the white metal, such as has taken place since: First. Trade will decline, especially in the countries which have the largest commerce with foreign countries; second, the fall of prices will cause great injury to manufacturers, merchants, and farmers, and hence to their workmen; it will be of advantage only to fund-holders and to holders of coin; third, industry being affected disadvantageously in its profits, fewer new ventures will be made; fourth, in this period of depression, the cause of which will not be understood, recourse will be had to expedients which will aggravate the evil, and among these expedients will be protective tariffs. "If you suppress silver as a motor

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of circulation," said Mr. Wolowski to the Monetary Commission, on the 7th of April, 1870, "you will diminish the metallic mass intended to serve as an instrument of exchange the world over. A large fall of prices will be the necessary consequence of the scarcity of the white metal. Lands, for instance, will be sold for a less quantity of money; the land owner will find himself between two fires and will be injured in both directions. Land will decline in price and the mortgage it has to bear become heavier."

Léon Faucher, as far back as 1843, predicted the actual crisis in still stronger terms:

The government, he said, can not prescribe that the type of value shall henceforth be gold instead of silver, for to prescribe that it should would be to decree a revolution, and the most dangerous of all revolutions, one whose course would be towards the unknown. (*Recherches sur l'or et l'argent* 6.104).

Let us hear now the monometallists.

The Economist also foresaw the danger from afar. In 1869, in its review of the year, it wrote substantially as follows:

We may affirm that the actual production of gold of 30,000,000 sterling (now reduced to twenty millions) is scarcely sufficient to meet the increasing transactions of the commerce of the world and to prevent a sudden reduction of prices and wages.

In its review of March, 1873, it predicted the disastrous consequences of the adoption of gold monomentallism by Germany, and it added: "Unless the annual production of gold suddenly increases the monetary markets of the world will probably be subjected to a great perturbation by this scarcity of specie."

Lord Beaconsfield expressed himself in the same way. He said:

I attribute the monetary disturbances which affect business transactions so disastrously, to the changes which the governments of the continent have introduced into their standard of values. Our gold standard is not the cause but the consequence of our commercial prosperity. It is evident that we should prepare ourselves for great disturbances in the business market, occasioned not by speculation or by some cause long known, but by a new cause, the consequence of which is very disastrous, (D'Israeli, at Glasgow, November, 1873.)

On March 29, 1879, speaking of the depreciation of silver, Lord Beaconsfield said:

The product of the gold mines of California and Australia has constantly diminished, and, at the same time, several governments have modified their monetary system in favor of gold, and this notwithstanding the continued increase of population which always requires a great increase of gold coin to effect exchanges. The latter has diminished from year to year, and the result of it is a situation the reverse of that which the discovery of the placer mines had brought about. Gold is acquiring greater value every day, and, consequently, prices are diminishing in proportion.

Mr. Robert Giffen, chief of the English bureau of statistics, whose competency in the question of prices is fully equal to that of Tooke, of Newmarch, and of Jevons, said, on the 21st of January, 1879, to the society of statistics, after he had demonstrated the reality of the fall of prices due to monetary contraction:

We must express the wish that the countries in which silver circulates shall not replace any part of that metal by gold. That would be nothing less than a calamity to business, if a demand for gold similar to that of the United States and Germany were produced. Even a much smaller demand for gold would soon be attended by very serious consequences.

At the monetary conference of 1878, Mr. Goschen said, on the 19th of August, that to wish to introduce the gold standard everywhere, was a piece of utopianism, not only erroneous but dangerous. He adds: "In that case, the general effort which would be made on every hand to get rid of the white metal might occasion the greatest disorders in

the economic world, and produce a crisis more disastrous than any within the memory of man." Has Mr. Goschen not been a good prophet? All the states of Europe have proscribed silver and adopted the gold standard practically if not legally, and the crisis foretold by the eminent English statesman is unfolding under our eyes.

Mr. Soetbeer, the learned advocate of German monometallism, writes in the *Jahrbücher für National-Economie*, July 15, 1880, p. 129, speaking of the general adoption of the gold standard:

> This solution of the monetary question would doubtless be theoretically the best, but the impossibility of realizing it in practice is so plain, that it is useless to stop to discuss a measure, the consequence of which would be the depreciation of silver and an absolute, incalculable decline of all prices.

The fall of prices is, indeed, such as Mr. Soetbeer foresaw.

One more quotation. Mr. Leroy-Beaulieu, last but not least, says that France would have become bankrupt without the extraordinary increase of gold after 1850. (Science des Finances, t. II, p. 323.) It therefore manifestly follows that the reverse phenomenon, the diminution of the production of gold aggravated by the proscription of silver must lead us into bankruptcy.

Such are the prophecies. Are they sufficiently clear? It seems, however, that there was no need of one's being a prophet, to see that a "monetary revolution" (to use the term of Léon Faucher) more violent and more radical than one could have imagined, must necessarily have the most serious consequences. From the beginning of the employment of the two precious metals as money, gold and silver have been made use of simultaneously, silver being the principal and natural money, as Locke says, and gold a money of luxury. When economists teach that the two precious metals are designated by their special qualities to perform the office of an instrument of exchange, they speak both of gold and of silver.

In his admirable treatise *La formation et la distribution des richesses*. Turgot puts gold and silver on the same level, by demonstrating that they possess an equal aptitude to perform the functions of money, "Gold and silver" says Ricardo, "having been chosen as agents of general currency, etc." (Princ. of Pol. Ec. ch. XII). All the masters of the science speak in the same way. Suddenly, after 1870 and 1873, Germany, followed by the other European states, proscribed the coinage of the metal which from the beginning had been considered money par excellence, to such a degree that, in French, silver (argent) and specie (numéraire) are synonymous, to reserve to gold the role of international money, the metal whose production is subject to constant leaps and jumps, and which consequently can not possess the quality essential to every common measure of wealth, viz, stability of value.

How could so revolutionary a face-about not be followed by the most disastrous consequences?

CRISIS OF MONETARY CONTRACTION.

II. The fall of prices from 1819 to 1830. The present contraction and fall of prices was produced by the three following causes;

First. Diminution of the production of gold from 700 to 500 millions; second, general suspension of the coinage of silver, after 1873; third, exceptional absorption of gold of about 3½ milliards by Germany and the Scandanavian states adopting the gold standard, and by the United States and Italy returning to a metallic circulation.

The same causes produced the same effects after 1819: First, the

production of the precious metals diminished; second, England resumed metallic currency; third, she went over to the gold standard, withdrawing from Europe about one-half milliard. (See memorandum of the Bank of England, dated 1832, where we read: "It was possible to obtain this great quantity of gold only by the reduction of the prices of commodities.")

The diminution of the production of the precious metals is evident from the following figures borrowed from Mr. Soetbeer:

Years.	Silver.	Gold.	Value.
	Kilograms.	*Kilograms.*	*Francs.*
1801-1810	894, 150	17, 778	265, 000, 000
1811-1820	540, 770	11, 445	161, 000, 000
1821-1830	460, 560	14, 216	153, 000, 000

Leroy-Beaulieu and E. Pirmez maintained, in 1881, that this diminution in the production of the precious metals had no effect whatever on prices. I remember that in my Studies on Rural Economy I had demonstrated that after 1820 a considerable depreciation in the value of lands in Holland, and especially in Germany, took place, and a closer examination of the question made me see that this depreciation was the result of an intense and universal crisis, the special character of which was the decline of all prices.

Mr. Jevons estimated it at at least 30 per cent. It may be followed in the classical work of Tooke and Newmarch (History of Prices) and in the debates of the English Parliament. Here is what one of its members, best informed on this subject, Mr. Matthias Atwood, said on the 12th of July, 1822:

> If we pursue the examination of the facts up to the present day we see that the prices of forty principal commodities have fallen 40 per cent., that is in about the same proportion as agricultural products. All values, both real and personal, in England, have, therefore, decreased nearly equally. Will it be said that prices in foreign countries have fallen just as much? Be it so. But then you have this dilemma, either the quantity of products must have increased enormously everywhere and at once, or the quantity of money must have diminished. It is impossible to admit that production has so suddenly and so considerably increased in all countries and in every zone. We must, therefore, conclude that the money in circulation has decreased.

May we not use exactly the same reasoning to-day? The universal distress was so great that Lord Brougham proposed, in 1822, to decrease the taxes, and that the idea was suggested to reduce the pound sterling from 20 to 14 shillings. In 1820 the premium on gold at Hamburg, which place regulated its price, rose to 10 per cent. while, at the same time, the stagnation of business was such that the rate of interest fell to 1½ per cent. in the month of August, 1819.

In a very curious work by Allison, the historian (England in 1814 and 1845, or a sufficient and a contracted money), we find a detailed description of the crisis. What is the cause of it? "The answer," he says, "is the contraction of the currency which accompanied the resumption of specie payments provided for by the bill of 1819." Another authority, De Lubé, writes, in 1827, in his argument against one gold standard, the gold standard has reduced the currency below the limit at which remunerative prices can be obtained, considering the present taxes. We find traces of the crisis in a very interesting debate between J. B. Say and Malthus, on the subject of the causes which provoked it.

Malthus attributes it, as is generally done to-day, to universal over-production. Say, replying to the theory of a *glut*, demonstrates that a *general glut* is not possible. He believes that the crisis came not from an excess but from an insufficiency of production in certain countries. He describes, in passing, some features of the economic disturbances:

> England by its agony already warns other nations of the sufferings in store for them (p. 94).

The character of the crisis, then as now, was a general decline of prices.

> The goods which exist in superabundance in the world's markets may astound us by their vast quantity and frighten trade by the debasement of their prices (p. 121).

Another characteristic of a crisis, then as now, was the superabundance of idle capital and the fall of the rate of interest:

> Capital is lying dormant in the safes and coffers of capitalists. The Bank of France alone has 223,000,000 in specie in its vaults, a sum more than double that of its notes in circulation (p. 102).

Then it was that the conversion of public debts was effected. Allison says, in his work on monetary contraction:

> There is no doubt that the reduction of the rate of interest imposes on the possessors of capital a loss as great, in many cases, as that suffered by the productive classes, in consequence of the decline of the price of goods.

It was during the period of the decline of prices which followed 1819 that France converted its 5 per cents. into 3 per cents. and England its 4 per cents. into 3½ per cents. The same phenomenon is evident to-day. Capital flees from all manufacturing enterprises which lead only to miscalculations, and takes refuge in investments that are entirely sure, viz, public funds and city bonds. The latter rise and allow the conversion of public debts, and thus the revenue of the fund holder is likewise affected.

In 1827, Sismondi in his *Nouveaux principes d'économie politique* draws a heart-rending picture of the economic perturbations "of that great European calamity" which the entire world was suffering from for eight years.

> The cry of distress rises from all the manufacturing cities of the Old World, and from the farms and towns of the New World it is re-echoed. Commerce is everywhere struck with the same languor; everywhere it encounters the same impossibility to sell. At least five years ago the suffering began. Far from diminishing, it seems to increase with time. The distress of the manufacturers is the most cruel, because, unlike the farmers, their subsistence depends entirely on exchanges. Patriotic associations which we see forming in Belgium and Germany to repel foreign merchandise are also a bad symptom of this universal suffering.
>
> It is the universal distress under our eyes which has caused a protective system to find favor in public opinion.

After having spoken of the sufferings of manufacturing workmen, Sismondi adds:

> At the same time the farmers and land-owners are complaining that they are ruined; they demand protective laws and monopolies; they declare that they are not able to endure foreign competition; and indeed, a great many farmers have failed and a great many land-owners have voluntarily abandoned one-fourth of their rent to lease-holders. Lastly, frequent destruction of crops and country houses by fire proclaim the irritation and the smothered fermentation among agricultural workmen, and the precarious condition of all society.

The crisis engendered protectionism in the United States from 1820 to 1827. An increase of the tariff or of customs duties is incessantly called for as a remedy to the crisis. In France, in the address of the Chamber of Deputies November 26, 1821, "complaints of agriculture,

that nursing mother of France, were laid at the foot of the throne." "The increasing distress of the departments of the East, West, and South prove that the measures taken too late against the importation of foreign cereals are insufficient." Indeed, the prices of corn were exceptionally depressed. Here are two statements from Belgium at this period:

Average price of wheat.

	Francs.		Francs.
1820	10.19	1825	12.13
1821	15.62	1826	14.19
1822	14.21	1827	17.25
1823	13.52	1828	19.60
1824	11.09		

At this moment the same causes are producing the same effects. A lowering of prices, the despair of the agriculturists; excessive rise in the duties on wheat, three francs in France, three marks in Germany, and a similar tendency in Austria.

The situation may be summed up by two picturesque Metaphors of Bismarck: "The gold fanatics have placed only water in our pot; sorry soup." "Gold has become too narrow a blanket; people are fighting to cover themselves with a part of it."

III. The proposition that the general decline of prices, the principal cause of the present crisis, as it was that of 1819–1829, is due to monetary contraction, is supported by the least debatable principles of political ecomomy.

In the first place, let us inquire whether there is a general fall of prices. Leroy Beaulieu contests it; the price of houses has not declined. This is an error. All over Europe it has declined at least one-fourth, and in some cities one-third. Everything is less dear, even oranges, which according to Mr. Clave are sold at one-half price in Sicily. The general fall of prices was demonstrated by Messrs. Giffen, Gibbs, and Thorold Rogers, two or three years ago, and since then it has only grown greater.

The London Times of the 7th of May, 1883, said:

> Prices are very low; they have fallen almost to the level of the period which preceded the great discoveries of gold.

The London Economist of the 5th of July, 1883, wrote:

> In the aggregate, prices in June, 1879, have been lower than at any time since the discoveries of gold, and at the end of June, 1883, they are still lower.

In July, 1884, the Times wrote:

> The price of the majority of commodities continually declines. Henceforth, it escapes all foresight.

But it is useless to multiply proofs. The fact is too evident.

On what does price depend? On the relation that exists between the aggregate of the objects to be exchanged and the total of the metallic and fiduciary media of exchange. The metallic media of exchange have decreased, for. (1) the United States, Italy, Germany, and the Scandinavian States have absorbed an exceptional tribute of 3/ milliards; (2) the production of gold has diminished, it is estimated by the conscientious calculations of Mr. Burchard, Director of the American Mint, $103,000,000 in 1881, $98,000,000 in 1882, and $94,000,000 in

1883; (3) silver has no longer come to feed the currency. Gold, the sole monetary metal is produced in an insufficient quantity, whence the consequence—scarcely any coinage in Europe.

We now give the gold budget. Production, about 500,000,000 francs. Consumption: In the arts, 280,000,000 francs; exportation to the extreme East, 100,000,000 francs; abrasion and loss by shipwreck, hoarding, etc., 30,000,000 francs. There therefore remain about 100,000,000 of francs for the increase of the monetary stock, which is scarcely sufficient for the United States alone, which now keep their entire production to themselves and *a fortiori* will keep it when the Bland bill having been repealed, they will have ceased to coin 120,000,000 (francs) of silver dollars a year. What does there remain for Europe? Nothing. In this, as in everything, it is necessary, above all, to take into account the changes that have been made. In his articles of 1881 (l'Economiste Français) Leroy-Beaulieu, summimg up the estmates of Mr. Soetbeer, showed that, from 1851 to 1875, the twelve principal states had coined more than 29 millards of gold and silver, or more than one milliard a year. What a contrast with the present figures! France coined annually, from 1850 to 1870, from 250,000,000 to 300,000,000 of francs of gold and silver. Here are the recent figures in millions of francs.

Years.	France.	England.	Belgium.	Years.	France.	England.	Belgium.
	Francs.				*Francs.*		
1879	24,000,000	£37,613	....	1882	3,000,000	....	(*)
1880	....	4,154,604	....	1883	....	£1,435,228	....
1881	2,000,000	....	....	1884	....	....	....

* Ten millions marks of gold converted into francs.

Recently, in the Belgian Chamber of Deputies, bitter complaint was made that a mint had been constructed to serve no purpose; but the same is the case almost everywhere in Europe, because the countries that produced gold converted it themselves into coin for their own use. Thus the coinage of gold in the United States for six years has absorbed much more than their own production.

1878	$52,798,000
1879	40,986,000
1880	56,157,000
1881	78,773,000
1882	89,413,000
1883	35,936,000
1884	27,932,000
Total in seven years	381,955,000

The production of gold in these seven years was about $231,000,000. Hence the excess of the coinage of gold over its production was $150,000,000, or 760,000,000 of francs.

During the latter years the United States has drawn more than a milliard and a half from Europe. A thing impossible, said Mr. Pirmez, for streams do not run toward their source. Statistics show once more that the comparison is not a true one. As soon as the Bland bill shall have been repealed, gold will have to replace 120,000,000 (francs) of silver now coined each year. Phenomenon stranger still and very exceptional, doubtless, but which may perhaps be considered a warning for the future: at the beginning of last year £920,000 in gold were shipped from England to Australia. We are face to face with the fact without precedent in economic history. In the country the richest in

the world in precious metals, that is in France, for five years no gold has been coined except pieces of 100 francs for the gaming tables of Monaco.

Look at the table of the annual coinage in France since the year 1811. Since 1832 we coined, gold and silver, 132,000,000 francs; in 1834, 248,000,000. We fell sometimes very low, as in 1836 to 48,000,000; but after 1850 we reached enormous figures—528,000,000 in 1855, 576,000,000 in 1857, and finally 711,000,000 in 1859.

To-day the source has dried up, the water has gone.

Who will contend that so unheard-of a fact is of no consequence? All economists, including Leroy-Beaulieu, admit that the gold of the placers contributed to produce the prodigious economic development which marked the period from 1850 to 1870. If this be true, how can the contrary phenomenon, the almost total cessation of the monetary inflow, not have for effect a decline of prices, incessant and continual losses to agriculture and manufactures, and consequently, a depression of all business life, that is, a crisis.

But we are told the greater employment of credit has come to the aid of the metallic instrument of exchanges, which was contracting. Leroy-Beaulieu affirms this. Mr. Giffen denies it. I doubt, said the latter, whether any great saving has been made by the substitution of credit for gold relatively to the exchanges already affected. Here is a figure which seems to show that Mr. Giffen is right: The business of the clearing house of London attained after 1873 the figure of 150 milliards of francs, which have never since been surpassed, and which is not reached to-day. There is, besides, an incontestible fact: no civilized country except France and the United States has the necessary quantity of gold. Even in England the bank has the greatest difficulty to maintain its reserve at the desired level, and the result is a weakness of the monetary market which the London Economist describes in the following terms:

> The entire disposable sum on the London market was estimated by very competent authority about ten years ago, at four millions sterling. To-day the margin has fallen much below that miserable sum of four millions. When a real demand for gold of one million sterling is absolutely taken from the market and held elsewhere, the market immediately experiences a perceptible pressure. (4 Feb., 1882.)

Since that date the situation has only grown worse, as we have seen this winter, notwithstanding the extraordinary stagnation to business.

English economists, from Bagehot to Giffen, have said that England needed for industrial and monetary wants an annual importation of gold of five millions sterling, and far from obtaining them it is losing every year a part of its gold, as is shown by the following figures, which indicate, in millions sterling, the excess of the exportations over the importations of gold during these latter years: 1877, 7.5; 1878, 3.4; 1879, 7.3; 1880, 5.3; 1881, 8.6; 1882, 0.7; 1883, 2.4.

England, which before 1870 had generally an excess of importation of gold of nearly 200,000,000 of francs, has lost, during these five last years, 500,000,000 of francs, and still its population has increased. According to the conclusions of Otto Arendt, the metallic circulation since 1871 has fallen to £2 10*s* per capita, which constitutes a reduction of £1, or 30 per cent. The same author proves that since 1871 the metallic circulation per capita has also diminished in Germany, notwithstanding the French milliards. The calculations of Mr. Ottomar Haupt, made with the greatest care, confirm these assertions.

Thus all figures lead to the same conclusion, energetically denied by our adversaries in 1881, but which is becoming evident to-day.

Gold alone is not sufficient to furnish to the world the necessary instruments of exchange unless it is to pass through a period of an enormous depreciation of prices. The blanket is certainly too narrow. The phenomenon may be understood by all. A railway transports merchandise by means of two kind of cars—some yellow, the others white, in quantities about equal. It does away with the white cars. What will be the consequence? The consequence will be that one part of the goods can no longer be transported, unless they are compressed in such a way that they shall take one-half less space than before. From the beginning of civilization the circulation of values has been effected by the means of the two metals, gold and silver. Suddenly silver is proscribed, and can no longer, as it did formerly, contribute to maintain the instrument of exchanges at the level of the increasing wants of commerce. What must be the result? Evidently an economic perturbation, a crisis which will not stop until the decline of prices shall have been so great that, with a similar quantity of specie, we may be able to effect as many exchanges as before.

The delegate of the United States to the Monetary Conference of 1878, Mr. G. Walker, professor of political economy, described in the strongest colors the sufferings which must result from such a perturbation:

> Suffocation and strangulation are words scarcely strong enough to describe the agony of the economic world when it is wound about in the mortal folds of a contracting instrument of exchange.

A thing which will prolong the crisis is that the quantity of gold, thenceforth the sole monetary metal of which Europe can dispose, shall go on decreasing according as the countries which produce gold, that is, the United States, Australia, and Russia, the three empires to whom space and the future belong, will develop, and consequently keep to themselves the precious metal which they have extracted from their mines. And when, after a series of crises, the duration and gravity of which it is impossible to foresee, as Mr. Soetbeer himself admits, we shall have reached a sort of equilibrium on the basis of reduced prices. The final result, as iniquitous as it is disastrous, will be a considerable increase of the burdens of all long-term debtors, land owners burthened with mortgages, manufacturing companies and railways, with outstanding bonds, and European tax-payers, who will have to pay every year the interest on 110 milliards of francs. Their debt will have become heavier in proportion to the decline of prices; for to bring together a like sum in cash, they will have to give up a greater quantity of their own products. As there will remain less for themselves, they, and they constitute principally the productive classes, will become poorer and more heavily laden.

Why impose so much suffering on humanity and thus pile ruin on ruin, to realize what Mr. Goshen calls a piece of Utopism, not only fallacious but destructive and disastrous.

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I. To what do you attribute the fall in the value of silver, as compared with gold, since 1874?

It is perfectly evident that the fall in the value of silver as compared to gold is *entirely* due to the legislative measures that have been adopted by different States, *i. e.*, firstly, the adoption of the gold instead of the silver standard by Germany and the Scandinavian States, and, secondly, the suspension of the coinage of silver by the Latin Union, to begin with, and afterwards by all other countries, save India and the United States.

If the coinage of silver had not been abandoned, this metal would not have lost in value through increase in its production. As all silver now produced finds ready employment, and that no stock of it accumulates anywhere, is it not quite clear that had the mints of Germany, of the Latin Union, and of America been kept open, they would very easily have absorbed the surplus production? As a kilogram of silver will always fetch 200 francs in standard money at the Paris mint, it is quite certain that the price of silver would have maintained itself at about 60½*d.* per oz., precisely as during the time that the bimetallic system was in vigor in France.

II. What probability is there of a continuance of the fall?

Will the fall in the value of silver continue? That depends on America. If the Bland bill is repealed a fresh fall is inevitable.

III. To what do you attribute the fall in the wholesale prices of many commodities which has been in progress during the last 10 or 12 years?

The fall of the price of *certain* commodities is due to the increase of their production, to improved facilities for transport, to the advance made in machinery, and to a general amelioration in all modes of fabrication and manufacture; but a *universal* fall in prices, affecting all produce, even that which is in no way touched by the afore-mentioned causes, can only be explained by a general reason, and this general reason must necessarily be monetary contraction.

Indeed, simple common sense alone would solve the question. Between the years 1850 and 1870 all prices rose, and economists agree in attributing this rise to an increase in the production of gold. Since 1873 just the contrary has occurred. The production of gold has steadily diminished, and silver is no longer allowed to make up the deficiency, a fact wholly without precedent in economic history. The coinage of moneys, so active formerly, has now almost ceased, while, at the same time, the exchanges effected are far more numerous than they used to be. All economists, without exception, teach that when cash diminishes, *cæteris paribus*, prices fall, and it is quite certain that since 1873 the stock of gold in Europe has immensely decreased, partly from the exports of gold to America and partly also because industry is ever absorbing a portion of the monetary stock.

The present production of gold is clearly insufficient. It is estimated to be about 18,000,000*l.* or 19,000,000*l.* annually. According to Burchardt's and Soetbeer's very careful statistics, trade yearly absorbs about 12,000,000*l.* in gold, due allowance being made for remelting; the extreme East has of late years taken about 4,000,000*l.*; the losses from wear and tear, shipwrecks, hidden treasures, and such like, amount to at least another 1,000,000*l.* There remains, therefore, at *most* two millions sterling to face the fresh demand for coin, which the immense increase in exchanges all over the world gives rise to.

As population and business steadily increases in the two principal gold-producing countries, the United States and Australia, these keep for themselves all the precious metal they produce. In England between 1879 and 1884 the gold coined amounted to 7,922,830*l.*, during the same period the coinage of gold in Australia was 24,112,000*l.*, and in the United States $231,000,000 (46,000,000*l.*). The coinage of gold in the States exceeded the production by $150,000,000, and this excess was of course supplied by gold from the outside world.

The consumption by trade combined with the monetary requirements, more especially if the Bland bill were repealed, would absorb all the gold produced in America, and the more so that this demand would be ever steadily increasing owing to the rapid growth both of population and riches.

It would be the same in Australia and in the extreme East. Europe would, therefore, have only Russia to look to in the future for her provisions of gold.

At the present moment all European countries, with the sole exception of France, have not sufficient gold in circulation. In England, indeed, this scarcity is an acknowledged fact. "Ten years ago," says the Economist, "the disposal of the London Stock Exchange was estimated by a competent authority to be about 4,000,000*l.*; at the present time it is far below that, when a demand for a million of gold absolutely carries off this sum from the market, and detains it elsewhere, there is a sensible pressure on the exchange." (Economist, February 4, 1886.) This strange state of things to which the Economist here refers was again perceptible this autumn, 1887, and is still felt while I write these lines.

Italy has already lost a considerable portion of the gold which she procured at such heavy cost when payments in cash were recommenced there. Gold is everywhere at a premium from 2 to 4 per thousand in Paris and in Belgium, even at 8 at this moment (October, 1887), from 2 to 3 per cent. in Spain, from 16 to 18 per cent. in Roumania. Holland, though a very rich country, has scarcely any gold in circulation, payments being effected in either silver or notes. Germany is lacking in gold to complete her monetary reforms, and Austria and Russia and all eastern Europe have no gold in circulation. The scarcity of gold is indeed an undeniable fact, observable on all sides at the present time, and destined to become more and more apparent.

It may be objected that gold is not yet absolutely wanting; this is true to a certain extent, because, as prices fall when gold becomes scarce, the quantity of money always appear sufficient.

This is a special economic phenomenon. It may be maintained that there will always be a sufficient supply of gold, because all prices fall when the means of exchange are diminishing, and therefore a greater number of exchanges can be effected with a less supply of gold. Theoretically, cash might be reduced to a minimum, and it would still suffice, because prices would fall proportionately. And indeed the less plentiful it is the more abundant would it appear, for, as the lowering of prices would render all business slack, the non-employed capital would be deposited in banks. This has been the case during the last few years.

It is very easy to prove beyond a doubt that the marked and universal fall in prices is not due solely to an increase of production and to improved methods of transport. Between 1850 and 1870 the railway development and the application of steam made greater progress than during the last ten years, new inventions of all kinds in the industrial

world rapidly succeeded each other, and yet during that time production immensely increased and prices rose. Between 1870 and 1885 economic progress was also considerable, but less than during the previous period, and nevertheless prices fell to a lower level than in 1850. How, then, can it be denied that monetary contraction was the cause of this? According to Mr. Sauerbeck, production in England between 1850 and 1870 increased $2\frac{3}{4}$ per annum, and between 1870 and 1885 $1\frac{1}{6}$ only; while prices rose during the first-mentioned period from 18 to 20 per cent., and fell during the second 30 per cent.

IV. Has it (the fall in prices) extended to (*a*) retail prices, (*b*) wages and other payments for services rendered, (*c*) land and houses?

The fall in prices has been general, but wages have not been so much affected, for the motives already indicated by Adam Smith.

V. Has the fall resulted in any material prejudice to the commercial or general interests of the world?

In theory it is unimportant whether prices are high or low, but practically a fall affects all longstanding creditors, companies, share-holders and holders of mortgages, and benefits people with fixed revenues; or, in other words, as Stuart Mill puts it, the active portion of society lose and the non active are gainers; but the effects of the fall, while it is actually taking place. are still more serious. All transactions and enterprises payable at fixed terms are exposed to an inevitable loss, and this is most discouraging to public initiative. Hence the stagnation in business now observable. The capital put into the fresh undertakings started each year has diminished by one-half. The reverse takes place during a period of expansion: all prices rise, profits are therefore assured.

Another serious drawback to the present situation is that, as the ratio of value between gold and silver has become uncertain since the bimetallic system no longer exists in France, all commercial relations with countries where the silver standard is admitted are subjected to an *alea* which is most unfavorable to sound trade.

VI. Do you consider that the countries using the gold standard, or any of them, are suffering from an injurious contraction of the currency which might have been obviated or mitigated by an increase in the supply of gold?

Gold standard countries also suffer to an equal degree from the evils here above referred to, and all this would have been avoided if silver had been allowed to fulfill, as formerly, the office of standard money. As gold alone has now to replace the two metals, as far as coinage is concerned, all countries fight for it, and the total quantity existing is insufficient. Hence the struggle for gold now taking place. As M. Bismarck says, the blanket is not wide enough!

VII. To what extent and in what way are prices affected by the quantity of the metal or metals used as standards of value?

All economists agreed that price depends on the relations existing between the mass of articles to be exchanged and the amount of credit or metallic means of exchange, due allowance being made for the rapidity of circulation of these means.

VIII. What is the relation, if any, between the supply or quantity of the precious metals and the fluctuations of credit?

The amount of money does not determine the facility of credit. For instance, credit is more general in England than in France, although England has certainly one-half less than France, but taking into account the monetary situation of a country, the influx or exports of gold act momentarily on the rate of interest, because in order to maintain sufficient cash in hand banks must raise their rates of discount when gold is being absorbed elsewhere. For example, we know that the Bank of England regulates the rate of discount by the

influx or drainage of gold, but the interest on capital is fixed by the abundance or scarcity of capital, not of money.

IX. Has there been during the last 15 years any important development of the system of cheques, bank credits, bills of exchange, or other means of economizing the use of the precious metals?

Mr. Robert Giffen is of opinion that during the last fifteen years there has been no great increase in the means of payment, cheques, bank credits, and bank notes, and I think he is right. The clearing-house operations have certainly diminished.

X. Do you consider that an international agreement could be made for the free coinage of gold and silver as legal tender money at a fixed rate?

No one can question the *possibility* of an international agreement for the free coinage of gold and silver as legal tender money at a fixed ratio.

XI. Is it in the power of Governments to maintain such a ratio if agreed upon; and would the practice of the commercial world follow the law?

Governments would not impose the ratio they adopted, but the effect of their adoption of a certain ratio, let us say $15\frac{1}{2}$ to 1, would be automatic and perfectly natural, and consequently it would impose itself upon the commercial word. If for one kilogram of silver, $\frac{9}{10}$ fine, I can obtain from the mints of the Latin Union 200 francs in standard coinage, and from the mints of all other States, England, Germany, and America, an equivalent amount, it is quite certain that I should not choose to sell it under this price. Silver would therefore maintain itself at its usual value of $60\frac{1}{2}$ or $60\frac{7}{8}$ per oz., as during the seventy years when France alone had adopted bimetallism, without this country having once to attempt any interference as to its price or relative value. The self-acting result of the free coinage of the two metals is one of the least clearly understood sides of the problem.

XII. What would be the effect of such an agreement, if carried out upon (*a*) prices, and (*b*) the production of the precious metals?

A treaty establishing international bimetallism would produce no immediate results on prices for there is no great stock of gold or silver to flow into the mints, but it would stop their fall and would insensibly be productive of a certain rise. As the price of silver would increase its production would also increase a little.

XIII. Do you consider an international agreement for bimetallism possible on any other ratio than $15\frac{1}{2}$ to 1?

For the ratio between gold and silver it might perhaps be well to adopt the American 16 to 1, but the French $15\frac{1}{2}$ has been in vigor so long that it seems almost to impose itself. It is the basis of all contracts between States of the Latin Union, and in Spain, Germany, and Holland, and all eastern europe. Besides, America would as readily adopt the $15\frac{1}{2}$ ratio as the 16. And if the ratio were once established by international contract it would impose itself.

XIV. Failing in international bimetallic agreement, what measures could be adopted by the commercial nations of the world for giving increased stability to the relation between gold and silver?

Failing in an international bimetallic agreement, I know of no measure which could give stability to the price of silver. If it can not be freely coined, it becomes mere merchandise, subject like all other merchandise to varying and limitless changes in value.

XV. It is argued that in the absence of bimetallism the effect of any disturbance of the currency is limited to half the currencies of the world, and thereby increased in intensity. Do you consider this view correct? and if so, do you think the evil a serious one?

The disturbances of the currency were produced by the proscription of silver, but they are not confined to certain countries. They affect all to a greater or less degree, because commercial relations are now such that the entire world forms one great market. The fall in prices has been universal and has been productive everywhere of great suffering, ruin, and loss.

XVI. If the effect of such disturbances could be spread over all countries, would greater stability of the standard of value be secured thereby?

If all the great commercial powers were to come to an international bimetallic agreement, sudden disturbances would no longer take place and changes brought about by increased or diminished productions of the mines would be very gradual, almost insensible, as they would extend over such vast territory. After the year 1850 bimetallism in France, by assisting the absorption of about 260,000,000*l.* in gold, prevented the too great depreciation of this metal and arrested the rise in prices. It acts like a parachute, and even such monometallists as Michel Chevalier and Jevons admit this.